

SECTOR UPDATE

Gloves – Malaysia

Mounting Pressures From Elevated US Tariffs And China Competition

The Malaysian glove sector is weathering challenges such as the geopolitical reshuffling, higher US reciprocal tariffs (25%), and intensifying competition from China. Earnings delivery is lagging expectations with a meaningful recovery expected only in 4Q25. Although the sector's forward valuations are well below the historical average, we acknowledge that there could be a potential long-term structural de-rating. We lower our 2025-26 earnings forecasts. Downgrade to MARKET WEIGHT. Top pick: Kossan.

WHAT'S NEW

- **Higher US reciprocal tariffs of 25% a negative surprise.** To recall, the White House informed Malaysia on 7 July that US tariffs on Malaysia exports will be 25% effective 1 August, higher than the initial tariffs of 24% introduced on 2 April. Compared with neighbouring gloves manufacturing countries such as Indonesia (19%), Vietnam (20%), and Thailand (36%), Malaysia's glove sector is likely to face increasing pressure if production capacity in these countries significantly increase in the coming years. While final negotiations between Malaysia and US authorities are still ongoing, local glovemakers are likely to partially absorb these export tariffs from end-customers amid the current oversupply dynamic.
- **Ongoing involution from China competitors remains a threat.** Given the severity of current US tariffs on China's medical gloves (80% in 2025, 130% in 2026), China glovemakers have largely reduced their exposure to US market and re-channel their sales to regions like Europe and Asia. They have also implemented more competitive price cutting strategies. This has resulted in more challenging dynamics and declining profitability (lower ASP and margin) for non-US sales. That said, the decline in 2H25 sales from non-US markets for local glovemakers will be buffered by increasing US sales as Malaysia's market share of US medical glove imports may grow to 65-70% (from 25-30% in 2024) following the exit of China players.
- **Upcoming 2Q25 results may be unexciting.** We assess that the sector's 2Q25 earnings will be flat qoq and weaker yoy. This is mainly due to the 7-8 months of inventories that have to be digested by US customers after they frontloaded purchases from China manufacturers in 4Q24 ahead of the higher tariffs. At the same time, intensifying competition in non-US markets and higher input cost will also weigh on sector's profitability in the near term. We estimate that volume sales recovery will only see a pick-up from Sep 25 onwards, as we expect a significant surge in US orders flowing into Malaysia. We pencil in assumptions of 60-65% utilisation rate and US\$20-21/'000 pieces ASP for Malaysian glovemakers in 2H25.

ACTION

- **Downgrade to MARKET WEIGHT**, as the sector's near-term earnings will be negatively impacted by recent unfavourable US tariff terms, stiffer competition from China manufacturers, and lacklustre equity momentum.
- **Reduce our 2025-26 earnings assumptions.** We lower our 2025-26 sector earnings by 25-35%, as we cut our volume sales, utilisation rate and ASP for respective glove companies under our coverage to reflect weaker demand expectations. After our steep earnings adjustment, we now peg our sector valuations to mean (from -1SD).
- **Downgrade Top Glove and Hartalega to HOLD; maintain BUY on Kossan.** Our target prices for Top Glove and Hartalega are lowered to RM0.71 (from RM0.79) and RM1.55 (from RM1.94) respectively. Our target price for Kossan is also lowered to RM1.72 (from RM1.87).
- **Our sector top pick is Kossan** as it offers deep value and defensiveness on its huge net cash position of RM1.58b (47% of market cap).

MARKET WEIGHT

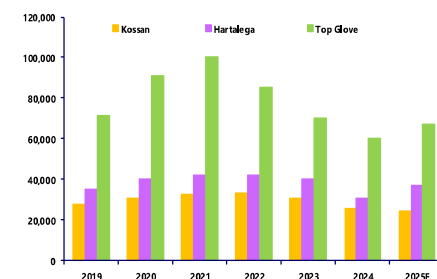
(Downgraded)

US' INITIAL RECIPROCAL TARIFFS (PENDING FINALISATION)

Country	Reciprocal Tariffs	U.S.A. Reciprocal Tariffs
China	25%	25%
Indonesia	19%	19%
Vietnam	20%	20%
Thailand	36%	36%
Malaysia	25%	25%
Philippines	25%	25%
Japan	25%	25%
South Korea	25%	25%
India	25%	25%
United States	25%	25%
Canada	25%	25%
United Kingdom	25%	25%
France	25%	25%
Germany	25%	25%
Italy	25%	25%
Spain	25%	25%
Sweden	25%	25%
Denmark	25%	25%
Netherlands	25%	25%
Belgium	25%	25%
Austria	25%	25%
Portugal	25%	25%
Greece	25%	25%
Ireland	25%	25%
Finland	25%	25%
Poland	25%	25%
Czech Republic	25%	25%
Slovakia	25%	25%
Hungary	25%	25%
Croatia	25%	25%
Slovenia	25%	25%
Lithuania	25%	25%
Latvia	25%	25%
Estonia	25%	25%
United Arab Emirates	25%	25%
Saudi Arabia	25%	25%
Qatar	25%	25%
Bahrain	25%	25%
Oman	25%	25%
Yemen	25%	25%
Somalia	25%	25%
Egypt	25%	25%
Sudan	25%	25%
Chad	25%	25%
Niger	25%	25%
Benin	25%	25%
Togo	25%	25%
Ghana	25%	25%
Sierra Leone	25%	25%
Liberia	25%	25%
Ivory Coast	25%	25%
Upper Volta	25%	25%
Senegal	25%	25%
Gambia	25%	25%
Guinea	25%	25%
Guinea-Bissau	25%	25%
Sierra Leone	25%	25%
Liberia	25%	25%
Ivory Coast	25%	25%
Upper Volta	25%	25%
Senegal	25%	25%
Gambia	25%	25%
Guinea	25%	25%
Guinea-Bissau	25%	25%

Source: The White House

MALAYSIAN GLOVE PLAYERS EFFECTIVE CAPACITY (M' PCS)



Source: Respective companies, UOB Kay Hian

SECTOR GLOVE VALUATIONS (PRE-COVID-19)



Source: Bloomberg

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PEER COMPARISON

Company	Ticker	Rec	Share Price 30 July 25 (lcy)	Target Price (lcy)	Mkt Cap (US\$m)	PE (x) FY25F	PE (x) FY26F	EV/EBITDA (x) FY25F	EV/EBITDA (x) FY26F	Div Yield (%) FY26F
MALAYSIA										
Top Glove	TOPG MK	HOLD	0.67	0.71	1,266.5	n.a.	27.3	25.6	12.9	1.8
Hartalega	HART MK	HOLD	1.40	1.55	1,126.6	n.a.	43.2	71.7	11.7	1.5
Kossan	KRI MK	BUY	1.30	1.72	775.5	29.8	21.3	27.4	20.3	5.3
Rubber										

Source: Bloomberg, UOB Kay Hian

ESSENTIALS.

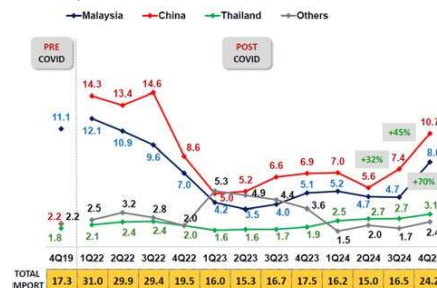
- Further downside risk from competition within Europe markets.** Outside of the US, we anticipate more aggressive ASP competition from China manufacturers in other regions. With the loss of US sales, we reckon intense competition from China manufacturers will cap ASP upside in non-US markets for Malaysian producers. That said, we estimate China glove manufacturers' breakeven ASP at US\$15/000 pieces, and they are unlikely to excessively dump their inventories at lower ASPs. Nevertheless, the potential decline in Europe sales for Malaysian glovemakers is likely to delay earnings recovery, despite being partially mitigated by increasing US orders.
- China glovemakers' regional expansion mainly to mitigate impact from higher US tariffs.** Following the upward revision of US tariffs, some China players are exploring capacity expansion in other ASEAN countries such as Indonesia, Vietnam and Thailand. We understand that one of the new production plants in Vietnam will begin operations in Nov-Dec 25, with an initial capacity of 5b-8b pieces annually. Despite this capacity being considered low vs the US' annual medical gloves import of around 90b pieces, further capacity expansion in these countries may deepen the overcapacity issues and weigh on Malaysian glovemakers' profitability.
- Slight relief from the US' higher tariffs on China medical gloves...** The Office of the United States Trade Representative (USTR) had initially locked in higher tariffs of 50% in 2025 and 100% in 2026 on China's medical gloves. Following US President Trump's reciprocal tariffs introduced in April and a 90-day pause implemented subsequently, the current tariffs on China's nitrile medical gloves are at 80% (50% initial tariffs on China gloves; 20% fentanyl tariffs; 10% base tariffs). Nevertheless, the US-China tariff rates remain fluid and require further monitoring.
- ...still provide a compelling thematic backdrop for the domestic glove sector.** With the current US tariffs on China medical gloves (80% in 2025, 130% in 2026) being much higher than Malaysia's (10%), local glovemakers will likely emerge as direct beneficiaries as the ASP gap widens further. This will effectively void most of China's gloves sales to the US and allow Malaysian glovemakers to recapture most of their US market share. On a net basis, we estimate that Malaysia's market share of US medical glove imports may grow to 65-70% (from 25-30% in 2024).
- Sector valuations offer modest upside despite selldown having more than priced in negatives.** The glove companies under our coverage possess palatable capital upside opportunities based on 2026's normalised earnings.

2025 VALUATIONS AND IMPLIED TARGET PRICES

Companies	Valuations	2026F EPS forecasts (sen)	Implied TP (RM)	% Upside from current share price
Hartalega	28x PE (mean)	5.6	1.55	10.7
Top Glove	24x PE (mean)	2.9	0.71	6.0
Kossan	18x ex-cash PE (mean)	6.1	1.72	32.3

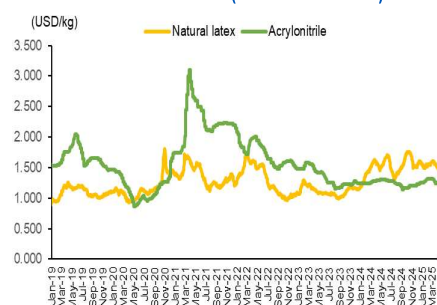
Source: UOB Kay Hian

US' QUARTERLY GLOVES IMPORT (BILLION PIECES)



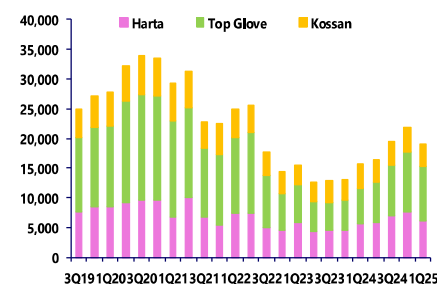
Source: TOPG, TENDATA

GLOBAL NITRILE AND LATEX GLOVES PRODUCTION CAPACITY (MILLION PIECES)



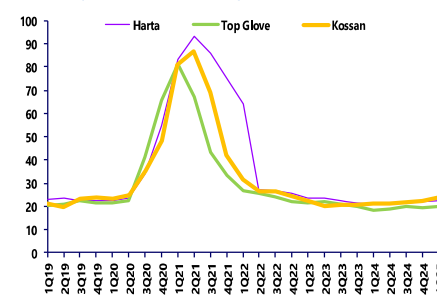
Source: OILCHEM

MALAYSIAN GLOVE PLAYERS' QUARTERLY SALES VOLUME (MILLION PIECES)



Source: Respective companies, UOB Kay Hian

MALAYSIAN GLOVE PLAYERS' QUARTERLY ASP CHART (US\$/1,000 PIECES)



Source: Respective companies, UOB Kay Hian

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